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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 003527

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [KNNP](#) [KWBG](#) [IR](#) [IS](#)

SUBJECT: D/S KIMMITT, BAR-ON, FIND COMMON GROUND ON PEACE  
PROCESS, IRAN, INVESTMENT

REF: TEL AVIV 5326

Classified By: Ambassador Richard H. Jones for reasons 1.4 (b/d).

11. (C) SUMMARY: Deputy Secretary of Treasury Robert Kimmitt and the Ambassador met Finance Minister Roni Bar-On on December 7, and discussed plans for Palestinian economic development and the future of Iran sanctions. Bar-On assured that the Government of Israel (GOI) is committed to helping the Palestinian Authority (PA) succeed, and to the future of the peace process. Kimmitt allayed Bar-On's concerns about the National Intelligence Estimate (NIE), assuring him that Treasury's policy on Iran remained unchanged. Kimmitt praised Israel's strong economy, and encouraged the GOI to increase budget transparency. He also welcomed investment by Israeli companies in the United States. END SUMMARY.

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"Committed to the Peace Process"  
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12. (C) Following the meetings in Annapolis, Bar-On assured Kimmitt that Israel is "totally committed to the peace process," and looked forward to continued dialogue with the Palestinians. Bar-On noted that cooperation between the two sides already exists, and that he speaks regularly with Palestinian Prime Minister Salam Fayyad. The GOI has offered training in good governance to the PA, said Bar-On, and recently completed the release of approximately NIS 2 billion (USD 526 million) in frozen customs revenues to the PA. Palestinian economic development is in Israel's interest, argued Bar-On, as it improves the Palestinian standard of living and strengthens moderates.

13. (C) Kimmitt inquired about the GOI's position in advance of the December 17th donors conference in Paris, and asked if Israel intended to pledge funds for Palestinian economic development. Bar-On said the GOI would be represented by Foreign Minister Tzipi Livni at the meetings, and has yet to finalize its position. Monitoring the use of funds will be important both to donors and the Palestinian people, said Kimmitt, who will be looking to see whether Fayyad and the PA can be effective. Kimmitt informed Bar-On that in a meeting with Fayyad after Annapolis, the PM told him that he was concerned about the status of litigation by terror victims in the United States and Israel and their claims on PA revenues.

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Fearing NIE Fallout  
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14. (C) Responding to the recent release of the NIE, Bar-On

said that Israel has different approaches to evaluating Iran's technical capacity, and estimates that they could have a nuclear weapon by 2009. He expressed concern that the NIE would affect sanctions, when there is "consensus that sanctions are working." Kimmitt assured Bar-On that nothing had changed in Treasury's policy toward Iran (reftel). Kimmitt said the intelligence community believes that sanctions had a direct effect on Iran's nuclear policy, and it is therefore critical to maintain this pressure. He promised that Treasury would continue to press on Iranian state-owned banks and the Central Bank of Iran (CBI), which is at the center of illicit activities. President Ahmadinejad worries more each day about the consequences of his economic mismanagement, said Kimmitt. He fired the CBI governor for refusing to lower interest rates; the OECD raised its risk level assessment; and private banks understand the risks of doing business in Iran. Sanctions are working, but just starting, said Kimmitt.

¶5. (C) Kimmitt pointed out that Iran represents a small percentage of overall business for most foreign banks, especially when compared to their business in the United States. Major banks are not willing to risk access to U.S. markets to maintain Iranian clients. The Iranians are smart, said Kimmitt, and have shifted their efforts toward southern Europe and second tier banks. For this reason, Under Secretary Stuart Levey recent completed a trip to Austria and Italy to keep up the pressure. The bottom line, said Kimmitt, is that banks must know their customers, and this is not possible when doing business with Iran. The fine levied on ABN AMRO for the assistance of one of its branches provided to Bank Melli illustrates this point.

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Encouraging Israeli Growth and Investment  
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¶6. (U) Bar-On boasted that Israel's Standard and Poor's credit rating was recently upgraded from A- to A based on the strength of the economy alone. Kimmitt praised Israel's accomplishments, saying the market recognizes fiscal discipline. This was reflected in the GOI's 2008 budget, said Kimmitt, which limited spending increases to under three percent of GDP, as discussed within the Joint Economic Development Group. Kimmitt said governments and rating agencies would be looking for additional transparency in the budget process, and that Israel should feel confident that it has "an opportunity to tell a good story" to financial institutions.

¶7. (U) Bar-On and Yarom Ariav, Director General of the Ministry of Finance, welcomed Kimmitt's statement that the United States was open to foreign investment. It is explicit GOI policy, said Ariav, that there should be no barriers to investment. Ariav said that many Israelis were investing in Europe, and more should invest in the United States. Kimmitt said that Israeli investment is welcome in key sectors, and agreed that the best way to provide opportunity is to remain open to such investment.

¶8. (U) D/S Kimmitt cleared this cable.

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